

Message Text

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PAGE 01 SAN JO 04445 222146Z

62

ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AGR-05 SWF-01 SP-02 AID-05

NSC-05 RSC-01 CIEP-01 TRSE-00 SS-15 STR-01 OMB-01

CEA-01 CIAE-00 COME-00 FRB-01 INR-05 NSAE-00 XMB-02

OPIC-03 LAB-01 SIL-01 L-02 H-01 PA-01 USIA-06 PRS-01

/076 W

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R 222030Z NOV 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8641

INFO AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMCONSUL GUAYAQUIL

AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: ETRD, CS

SUBJECT: STATUS OF BANANA NEGOTIATIONS

REF: SAN JOSE 4299

1. CONTACTS THIS WEEK WITH THE TWO LARGEST BANANA PRODUCING COMPANIES IN COSTA RICA ESTABLISHED THAT NEGOTIATIONS ARE STILL GOING ON WITH THE COSTA RICAN GOVERNMENT BUT THAT LITTLE PROGRESS TOWARD A SOLUTION IS EVIDENT. THE MOST RECENT SESSION TOOK PLACE NOVEMBER 20 IN THE OFFICE OF FINANCE MINISTER MORERA AND WAS ATTENDED BY REPRESENTATIVES OF ALL OF THE BANANA PRODUCING COMPANIES. A SIMILAR SESSION IS TO TAKE PLACE ON NOVEMBER 25, WHEN THE COMPANIES

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PAGE 02 SAN JO 04445 222146Z

OTHER THAN UNITED BRANDS ARE SUPPOSED TO PRESENT THEIR

VIEWS TO THE COSTA RICAN GOVERNMENT. UNITED BRANDS WILL GIVE ITS VIEWS ONLY AFTER HEARING THE VIEWS OF THE OTHER COMPANIES BECAUSE, AS EXPLAINED REFTTEL, ITS ACCEPTANCE OF ANY GOVERNMENT PROPOSALS COULD COMPROMISE THE POSITIONS OF THE OTHER COMPANIES WHICH MUST OPERATE UNDER THE SAME TERMS AND CONDITIONS AS THOSE AGREED TO BETWEEN UNITED BRANDS AND THE GOVERNMENT.

2. THE EMBASSY'S IMPRESSION IS THAT THE GOVERNMENT IS SOFTENING ITS TERMS. IT APPARENTLY HAS ABANDONED THE IDEA OF AN IMMEDIATE 50 CENTS PER BOX TAX ON BANANAS AND IS NOW TALKING IN TERMS OF A TAX LEVEL THAT WOULD RISE FROM THE PRESENT 25 CENT LEVEL TO 33 CENTS NEXT YEAR, 41 CENTS IN 1976, AND 50 CENTS IN 1977. AT THE LATEST SESSION, MORERA ALSO HINTED AT A POSSIBLE LOWER EXPORT PRICE (PRECIO DE SALIDA), BUT DID NOT MAKE ANY FIRM PROPOSAL ON THIS. AT THE SAME TIME, THE POSITION OF THE COMPANY APPEARS TO BE HARDENING. STANDARD FRUIT, IN PARTICULAR, APPEARS TO BE UNWILLING TO ACCEPT A 50 CENT BANANA TAX, EVEN IF PHASED IN OVER A PERIOD OF SEVERAL YEARS, BECAUSE IT CANNOT BE CERTAIN WHAT TAX LEVEL MIGHT BE JUSTIFIED UNDER FUTURE MARKET CONDITIONS. PROBABLY THE CHANGING ATTITUDES ON BOTH SIDES ARE RELATED TO THE SHARP DECLINE OF BANANA PRICES IN RECENT WEEKS. USDA PRICE DATA SHEETS SHOW THAT THE "STREET PRICE" OF BANANAS IN THE U.S. HAS FALLEN FROM \$5.50 TO \$4.50 PER BOX. COMPANY ATTITUDES MAY ALSO RELATE TO THE HARD LINE POSITION APPARENTLY BEING TAKEN IN HONDURAS WHERE UNITED FRUIT REPORTEDLY MAY NOT RE-PLANT ITS PLANTATIONS UNLESS IT GETS RELIEF FROM THE EXPORT TAX IT HAD AGREED TO ACCEPT BEFORE THE OCCURRENCE OF HURRICANE FIFI.

3. IT WOULD APPEAR TO THE EMBASSY THAT TTV LOWER MARKET PRICE FOR BANANAS IN THE U.S., THAT HAS COME ABOUT DESPITE THE LOSS OF MOST OF THE BANANA EXPORTS OF HONDURAS, DOES MAKE IT MUCH MORE DIFFICULT FOR THE BANANA COMPANIES TO AGREE TO A SUBSTANTIAL INCREASE IN THE TAX ON BANANAS. AT THE SAME TIME, THE LOWER BANANA PRICE AND THE DESPERATE SITUATION IN WHICH HONDURAS FINDS ITSELF, ARE BOTH FACTORS WHICH TEND TO PUT THE LIMITED OFFICIAL USE

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PAGE 03 SAN JO 04445 222146Z

UPEB COUNTRIES IN A WEAK BARGAINING POSITION. IT IS ONLY NATURAL TO EXPECT THE BANANA COMPANIES TO TRY TO PROFIT FROM THIS WEAKENED POSITION TO GAIN THE BEST TERMS POSSIBLE. ALSO, THE REASON FOR FALLING BANANA PRICES, WHICH IS SAID TO BE A SHARP DECLINE IN SALES OF BANANAS TO EUROPEAN MARKETS AND A CONSEQUENT FLOODING OF THE U.S. MARKET, WOULD ALSO HAVE TO GIVE THE UPEB GOVERNMENTS PAUSE. IF EUROPEAN HOUSEWIVES HAVE SHARPLY

CUT THEIR PURCHASES OF BANANAS AS A RESULT OF THE
INFLATIONARY SQUEEZE ON THEIR BUDGETS AND THE HIGH
DDRIVERED PRICE OF BANANAS TO EUROPEAN MARKETS, THEN
IT IS REASONABLE TO ASSUME THAT TOO GREAT AN INCREASE IN
THE PRICE OF BANANAS IN THE U.S. COULD HAVE THE SAME
EFFECT ON OJE BUYING HABITS OF THE AMERICAN HOUSEWIFE.
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